

Notice No.: 92-008
Date: May 27, 1992
Applies to: PERS and TRS Employers
Subject: Retirement incentive payments

Incentives or bonuses paid to encourage retirement or voluntary termination are not includable for calculating the retirement benefits of members of the Public Employees' Retirement System (PERS) or the Teachers' Retirement System (TRS). Such payments to PERS or TRS members are NOT reportable to the retirement system. This rule applies whether or not the payment is offered in a bargaining agreement or contract.

Retirement or voluntary termination incentives can take various forms; some common forms are listed here.

- A percentage raise in wage or salary is offered to those who agree to retire or who notify the employer of retirement.

For example, an employer might offer a 3% salary increase during the final two years to employees who agree to retire at the end of that period. The employee's normal salary, along with any increases that are also offered to non-retiring employees, should still be reported to the retirement system. However, the retirement incentive portion of the salary should NOT be reported.

- A lump sum payment is offered to an employee who agrees to retire or who notifies the employer of retirement.

For example, an employer might offer a \$2,000 annual bonus to employees who agree to retire at the end of a specified period. The employee's normal salary, along with any increases that are also offered to non-retiring employees, should still be reported to the retirement

system. However, the retirement incentive bonus should NOT be reported.

- An increased rate of compensation is offered to employees who agree to retire or who notify the employer of retirement.

An employer might offer a higher hourly rate of pay during the last two years for employees who notify the employer of their intent to retire at the end of that period. For example, retiring employees might earn \$17 per hour, while other employees performing the same duties earn \$14 per hour. The employee's earnings at the normal rate of pay—\$14 per hour—should still be reported to the retirement system. The retirement incentive portion of the salary—\$3 per hour—should NOT be reported.

This exclusion also applies to a plan sometimes referred to as “accelerated work payments.” This plan offers an employee extra duties at a higher-than-normal rate of pay as a bonus for agreeing to retirement or separation at the conclusion of the contract period. Compensation for the extra duties should be reported at the normal rate of pay, because services are being rendered. However, for the duration of these payments, only the equivalent of the normal rate of pay (for both regular duties and extra duties) should be reported to the retirement system. That portion of the compensation that results from the retirement incentive agreement should not be reported.

- If you reported retirement incentive payments in the past for a current employee, you will need to back out the erroneously reported compensation and contributions on your transmittal report. You should then refund the associated contributions to the member.
- If you reported such payments for an employee who has subsequently retired, notify the appropriate retirement system, in writing, of the employee's name, Social Security number, the period of time in which these payments were made, and the amount of the retirement incentive payments erroneously reported.

The exclusion of retirement incentive pay is established in WAC 415-112-410(3)(d) for TRS Plan 1, WAC 415-112-411(3)(f) for TRS Plan 2, WAC 415-108(3)(d) for PERS Plan 1, and WAC 415-108(3)(f) for PERS Plan 2.

Questions?

If you are unsure which compensation should be reported, you may contact DRS Membership Services at (206) 753-3109, SCAN 234-3109. Questions about making corrections via your transmittal report can be directed to the DRS Employer Relations Unit at (206) 753-8696, SCAN 234-8696.

George Northcroft
Director